



*Independent Insurance Agents  
& Brokers of America, Inc.*

**STATEMENT OF THOMAS MINKLER  
ON BEHALF OF THE  
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA  
  
BEFORE THE  
  
COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON HOUSING AND COMMUNITY  
OPPORTUNITY  
  
UNITED STATES HOUSE OF REPRESENTATIVES**

**June 12, 2007**

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Good afternoon Chairwoman Waters, Ranking Member Biggert, and Members of the Subcommittee. My name is Tom Minkler, and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (IIABA) to present our association's perspective on efforts to reform the National Flood Insurance Program (NFIP or the "Program"). I am the president of the Clark-Mortenson Agency, Inc., headquartered in Keene, New Hampshire, a regional insurance agency with eight locations and 55 employees in New Hampshire and Vermont. I also serve as the Chairman of the IIABA's Government Affairs Committee.

IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than 300,000 agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of

insurance – property, casualty, life, health, employee benefit plans, and retirement products. It is from this unique vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against flood risks.

### ***Background***

IIABA believes that the NFIP provides a vital service to people and places that have been hit by a natural disaster. The private insurance industry has been, and continues to be, largely unable to underwrite flood insurance because of the catastrophic nature of these disasters. Therefore, the NFIP is virtually the only way for people to protect against the loss of their home or business due to flood loss. Prior to the introduction of the Program in 1968, the Federal Government spent increasing sums of money on disaster assistance to flood victims. Since then, the NFIP has saved disaster assistance money and provided a more reliable system of payments for people whose properties have suffered flood damage. It is also important to note that for almost two decades, up until the 2005 hurricane season, no taxpayer money had been used to support the NFIP; rather, the NFIP was able to support itself using the funds from the premiums it collected every year.

Under the NFIP program, independent agents play a vital role in the delivery of the product through the Write Your Own (WYO) system. Independent agents serve as the sales force of the NFIP and the conduits between the NFIP, the WYO companies, and the consumers. This relationship provides independent agents with a unique perspective on the issues surrounding flood insurance, yet also means that the role of the insurance agent in the delivery process of flood insurance is considerably more complex than that of traditional property/casualty lines. Agents must possess a higher degree of training and expertise than their non-NFIP participating counterparts, which requires updating their continuing education credits through flood conferences and seminars. This is done regularly and involves traveling to different regions of the country, costing personal time and money. Every agent assumes these responsibilities voluntarily and does so as part of being a professional representative of the NFIP. In an effort to bring the education process to as many people as possible, many of our State associations have begun to provide internet based seminars. This training has been extremely popular and a tremendous tool. We believe in the effectiveness of the Program and would like to see it continue and offer consumers even greater protections in the years ahead.

However, no program is perfect, which was made all the more clear by the devastating 2005 hurricane season and the unpredictable weather patterns across the country. In my home state of New Hampshire, there have been eight federally-declared disasters from flooding in the last 10 years. This increased flooding activity in such a short period of time has highlighted some of the deficiencies of the program and has strained government resources. While IIABA is confident that the NFIP will recover, it is important that Congress shore up the NFIP's financial resources and use this opportunity to enact needed reforms to ensure the long-term sustainability of the program.

For this reason, the IIABA strongly supports Chairman Frank and Rep. Biggert's legislation, H.R. 1682, the Flood Insurance Reform and Modernization (FIRM) Act of

2007. The IIABA has released a 23-point plan for reform to restore the NFIP to sound actuarial footing, and we are extremely pleased to see a number of IIABA recommended provisions in this proposed legislation.

### ***Modernization of Coverages***

In particular, the Big “I” is especially grateful that the Committee has chosen to modernize the NFIP by increasing maximum coverage limits and by including, at the option of the consumer, the purchase of business interruption coverage, additional living expenses, replacement cost coverage for contents, and basement coverage. The modernization of coverages will hopefully have three positive effects on the NFIP as a whole. First, it will allow consumers to more adequately insure their properties and valuables against their true risks. This will in turn make the NFIP as a whole a more attractive product for consumers, thereby increasing participation in the program. And finally, as optional purchases that are sold at actuarial rates, the modernization of coverages will result in a NFIP that is closer to being on actuarially sound footing.

The inclusion of optional business interruption coverage is particularly crucial to Big “I” members and their commercial customers. If a flooding catastrophe causes a business premises to be temporarily unusable, that business may have to relocate or even close down temporarily. Property owners are still required to pay employees, mortgages, leases and other debts during this process, and these ongoing expenses can mount up quickly for a business that has reduced income or no income at all. For property insurance policies, business interruption insurance provides protection against the loss of profits and continuing fixed expenses resulting from an interruption in commercial activities due to the occurrence of a peril. The inclusion of an optional business interruption provision will provide stability to the local economies in the areas affected by flood damage and will offset government disaster relief payments should the flood peril result in widespread destruction across a region. Business interruption coverage, and the security and peace of mind it provides, is crucial to our members and to small businesspeople across America.

Another provision in the legislation which we strongly support is the inclusion of the option to purchase additional living expenses. This provision will provide consumers with greater security during the often bewildering post-flood period, and will do so in an actuarial basis as opposed to relying solely on FEMA grants and assistance

Also chief among our recommendations, and present in FIRM, is the proposed increase in the maximum coverage limits. The NFIP maximum coverage limits have not been increased since 1994 and since then, the United States has seen a housing market boom of epic proportions. Labor and materials costs have skyrocketed, and yet the maximum indemnity a homeowner can receive for a flood loss is \$250,000. Similarly, a total loss on a commercial property would only net the occupant \$500,000. These figures are caught in time, and they do not provide reasonable financial relief for policyholders facing a complete rebuilding process. Hurricanes Katrina and Rita clearly showed that homeowners and businesses need higher NFIP coverage limits in order to properly insure their properties. An increase in the maximum coverage limits will better allow both

individuals and commercial businesses to insure against the damages that massive flooding can cause, and we're grateful that this increase was included.

### ***NFIP Borrowing Authority***

Finally, the increase of the NFIP's borrowing authority has been an important issue for independent insurance agents and brokers. NFIP claims liabilities arising from Hurricanes Katrina and Rita are estimated at more than \$21 billion dollars, far surpassing the total claims paid in the entire history of the NFIP. The 109<sup>th</sup> Congress passed three increases in the NFIP temporary borrowing authority, with the current amount at \$20.775 billion. Despite the three borrowing authority increases, the NFIP likely will not have enough funds to pay all outstanding claims without another increase. We are very supportive of the Committee's efforts in this legislation to increase the borrowing authority again to \$21.5 billion. The increase of the borrowing authority is vital to ensure the continued payout of promised monies to consumers, and the IIABA applauds the Committee for its efforts to ensure that the U.S. Government delivers on this promise.

Additionally, we urge the Committee to consider carefully whether it may be appropriate to eliminate the incurred NFIP debt that has resulted from the 2005 Hurricane Season. It is estimated that the NFIP will need to pay as much as \$900 million a year to the U.S. Treasury in interest payments alone, which represents nearly half of their annual premium. The long term survival of the program may require Congress to consider eliminating their debt and the resulting interest payments.

### ***Conclusion***

The IIABA is very pleased that the Subcommittee is conducting today's hearing on comprehensive flood insurance reform and we urge the Financial Services Committee to pass H.R. 1682 and send it to the full House of Representatives for approval. The Flood Insurance Reform and Modernization Act of 2007 is critical towards ensuring the long-term stability of the NFIP. The NFIP is essential to Americans and to the U.S. economy, and we strongly support your efforts to update it to reflect today's risks. Adopting the reforms found in H.R. 1682 would help to make the NFIP more actuarially sound and more effective at serving both consumers and taxpayers. In particular, we also strongly support your efforts to increase the maximum coverage limits and to provide for the optional coverage of business interruption insurance and additional living expenses.

I thank the Committee for giving me the opportunity to express the views of the IIABA on this important Program. I hope very much that this hearing will contribute to additional action taken by Congress to pass flood insurance reforms and to ensure prosperous growth and stability of the National Flood Insurance Program.